

Boardroom inertia?

**A spotlight on the diversity
of FTSE Small Cap and AIM
listed company boards**

February 2021



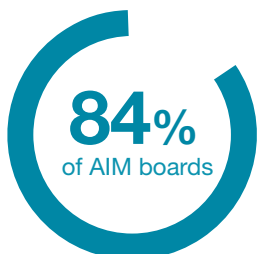
Highlights



of AIM UK 50 directors and FTSE SMC 100 are white



of FTSE SMC 100 are white, with only one net addition to the non-white directors in both cohorts;



have all white boards, compared to over a third of FTSE 100 boards



20%

of AIM UK 50 directors are women, up 2% yoy



4%

of FTSE SMC companies have all male boards, unchanged yoy



The FTSE SMC 100 has the youngest directors



Proportion of all-male boards has fallen 7% yoy to

16%



89%

of women directors in AIM 50 and FTSE SMC 100



96%

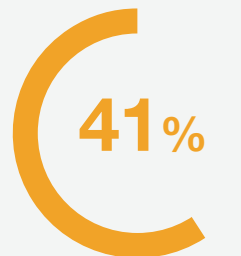
in FTSE SMC 100 are non-executive



The rise in men over 70 has **increased** the average age of FTSE SMC 100 men while new appointments have **reduced** the average age of women



of FTSE SMC 100 are women, in line with FTSE 100



of new directors to FTSE SMC 100 are women



Only 6%

of executives are women in AIM 50 v 8% in FTSE SMC 100

37%

of AIM UK 50 and 7% of FTSE SMC 100 have no clear boardroom-diversity policy

Foreword

Welcome to our second annual report on board diversity among the UK's smaller listed companies. Those who work with me know it is a subject that I and the teams at Link Group are passionate about. It is good for business, people and society as a whole.

Our first annual report, published last year, revealed improvements on gender and age diversity, but little change on ethnicity. White men remained disproportionately represented compared to larger companies, bringing the risk of little cognitive diversity into smaller listed company board rooms.

Thanks to their size, and in many cases global reach, the top FTSE 350 listed companies in the UK tend to dominate attention in the diversity debate. But they are not fully representative of UK corporate culture. Indeed, there are more than a thousand smaller listed companies on the main market and AIM indices and tens of thousands of private companies spread all over the country in every industry imaginable. They employ far more people between them than the top FTSE 350 companies and tend to be more domestically focused. This means they reflect UK company leadership and the lived experience of the UK workforce much more than their very large, often global, counterparts.

This is not merely of academic interest. If such large proportions of the population are not rising to the top because of their race, gender or age, then huge pools of talent are going untapped, limiting the potential for individuals and the whole economy. As we look to a post-pandemic future, we are going to need to tune every aspect of fitness to Olympic standard to get the UK back on its feet.

Making sure that UK business is reflective of modern society is an essential part of that. Only then can the economy truly go full speed

Role models are clearly a valuable starting point to inspire children from ethnic minorities and young white girls to think differently about their futures. Wider diversity targets have proven their worth in focusing the collective minds of listed companies to do better, but it is clearly not enough.

So what has changed in the last year? Are things getting better or is there backsliding? Our new edition looks at the current state of play and uncovers the latest trends.

With grateful thanks to everyone on the Company Matters team who helped scour 150 annual reports and countless other resources to put the figures together.

As always, if you would like to discuss the report with me or the Company Matters team do get in touch.



A stylized, handwritten signature in black ink, appearing to read 'Tracey Brady'.

**Tracey Brady, Managing Director,
Company Matters, Link Group**

A comparison

How the FTSE 350 measures up

“Increasingly institutional and retail investors are demanding that companies are not only delivering bottom-line results, but are good corporate citizens as well.”

The UK’s largest companies are subject to more formal scrutiny than those we track in our annual diversity report. It is for them to set the example for smaller companies, so let’s have a quick look at how they are performing on diversity so we can contextualise and compare our findings.

Money in the UK’s investment culture is following principles that lead to real change. Increasingly institutional and retail investors are demanding that companies are not only delivering bottom-line results, but are good corporate citizens as well. There is a growing body of research proving that one can help beget the other. Inflows to ESG (Environmental, Social and Governance) funds are growing fast and broke record after record in 2020.¹ In the single month of November 2020, inflows to ESG funds equalled those in the five years leading to January 2020 combined. The ‘G’ in ESG stands of course for governance and clearly encompasses questions of gender and racial equality. The social ‘S’ includes talent management, which naturally has a diversity imperative too.

Gender

At the turn of the 21st century, fewer than one in ten FTSE 350 board members

in the UK were women. To address this chronic lack of gender diversity, the Women on Boards review recommendations succeeded in raising female board representation to 25% by 2015. The Hampton-Alexander Review promptly raised that target to 33% by the end of 2020.

The all-male board briefly went extinct in the FTSE 350 in 2020. What’s more, the latest numbers suggest the Hampton-Alexander target is close to being achieved, with the FTSE 100 and FTSE 250 on average hitting 33% and 32% female boards respectively. Constant vigilance is crucial, however. Not only do the averages hide wide variation, with a quarter of FTSE 350 companies having less than 25% female representation, we have also seen backsliding. By the middle of 2020 two companies had appointed all-male boards that formerly had women among their number.

This does not go unnoticed. Institutional investors are now often noisy objectors, using their votes to encourage more women on boards, while the Investment Association has adopted a very public naming and shaming regime. Smaller companies should take note, because investors will increasingly demand change from them too.

Race

The figures on racial diversity are poor, even among the largest firms. Over a third of FTSE 100 boards are all white at present, prompting the CBI to call for all top 100 companies to have at least one director of colour in the next 12 months, echoing the target set by Sir John Parker in 2017. Parker has set 2024 for the 250. Yet, across the FTSE 350, if you take out the handful of UK-listed African and Central/South American mining companies, just one in twenty FTSE 350 board members was not white (three times less than their representation in the general population). Only one company in eleven had more than one non-white board member. Big investors are pressing for change. Legal & General for example, one of the UK’s largest shareholders, will vote against the re-election of the nomination committee of FTSE 100 companies that do not have at least one BAME director by January 2022. Smaller companies should remain mindful as it’s highly likely that big investors will want to see such changes too.



Overview

AIM UK 50 and FTSE Small Cap 100

Gender

Among the AIM UK 50 and FTSE Small Cap (SMC) 100 we reported last year that the tide may be turning on companies that have traditionally had very limited gender diversity and they are beginning to recognise the benefits at board and senior management levels. We are very heartened to see this shift continuing over the course of 2020. Women now make up 33% of FTSE Small Cap 100 boards, which is ahead of the FTSE 250 with two fifths of new appointments being women. Among the AIM UK 50 the proportion of women directors has risen two percentage points to 20%². Unfortunately, the increase in female representation is almost entirely driven by NEDs; there remain few female executives and no improvement on this front.

Race

We see no material improvements in the racial mix, either in terms of board composition or at senior management level. In net terms, the number of BAME directors increased by just one in 2019 across the whole AIM UK 50 and FTSE Small Cap 100³. All-white boards will not disappear for years at the current rate of

change. We strongly urge companies to make more visible progress, taking their lead from the FTSE 100, which now has 11% BAME representation on its boards. If big companies keep pushing change and set a good example this would help improve board diversity among the smaller companies we focus on within this report.

Age

From an age perspective, we have seen no significant changes in the age make-up of AIM UK 50 and FTSE Small Cap 100 boards in the last year. Generally speaking, younger women are under-represented because women are less likely to be executives, and older women are also under-represented, in part because there are lots of long-tenured older men among the NEDs.

Disclosures

As far as disclosure is concerned, we are seeing more and more companies publish a policy of some form on boardroom diversity, though among the AIM UK 50, the quality of disclosures is not materially improving, suggesting a tick-box, boiler-plate approach. Equally, only two AIM UK 50 and seven Small Cap 100 companies

set measurable objectives for board diversity, with ethnicity only mentioned if gender already has been. Among the Small Cap 100 the proportion of companies not having a clear policy on boardroom diversity, contrary to the provisions of the UK Corporate Governance Code, has dwindled to 7%, down two percentage points from 2019.

Our view

If this was an end-of-year school report, we would give our cohort a 'B' on gender and a 'D' on ethnic and age diversity. A 'B' because gender diversity is improving but disclosure and reporting should be better and women should be empowered to target more executive roles. A 'D' because racial and age diversity are clearly not improving materially, and companies are struggling to articulate a strategy. These smaller companies provide the pipeline of talent for the UK's larger listed groups, so it's crucial that diversity is fostered right from the word go.

The following pages explore these themes in detail and set out what good-practice reporting and good disclosure looks like.

“We see no material improvements in the racial mix”

²
³

See methodology for notes on like-for-like calculations which adjust for the changing mix of companies in the sample
Like-for-like

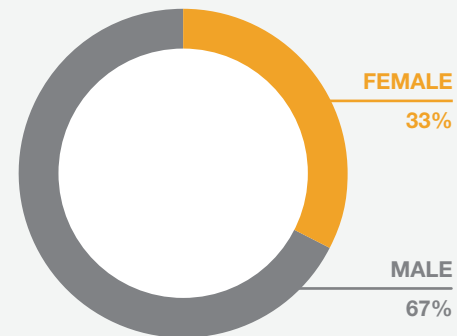
Board diversity

Gender

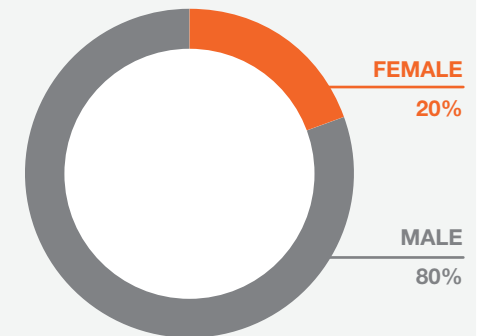
	AIM UK 50		FTSE SMC 100	
	NUMBER	% OF WOMEN	NUMBER	% OF WOMEN
Female NEDs	55	26%	178	35%
Female Execs	7	6%	7	8%
Female CFOs	3	7%	5	14%
Female CEOs	2	4%	1	3%
Female Chairs	3	6%	9	9%
Female SIDs	5	19%	23	29%

(as at annual report date)

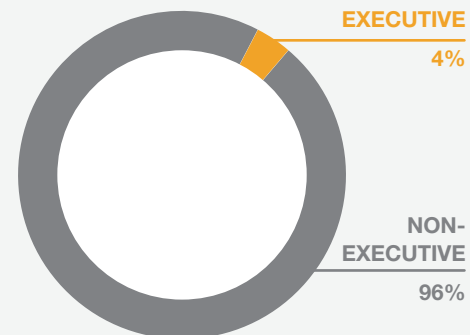
Gender diversity of FTSE SMC 100 boards



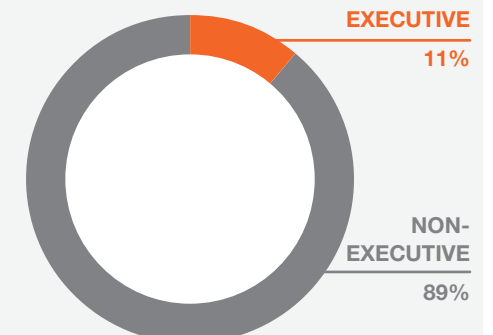
Gender Diversity of AIM UK 50 boards



Female directors by role FTSE SMC 100 boards



Female directors by role AIM UK 50 boards



AIM 50

Gender diversity is improving among AIM companies. Out of a total of 326 AIM UK 50 directors (including those appointed since the annual report date), 20% are now women, an increase of two percentage points⁴ since this time last year. That seems like relatively slow progress, but given that the average tenure of these boards' members is almost seven years, inertia means it takes a relatively long time for the gender mix to change substantially without more concerted action. The proportion of new appointments that are female (29%) is certainly much higher than the current board population and so will continue to drive change. Unless this mix changes very significantly, however, AIM companies have no chance of ever reaching the 33% threshold set in the Hampton-Alexander review for larger companies. Indeed, even if half of all new appointments each year were women, it would take a whole generation, around 30 years, for board populations to equalise. Encouragingly, the number of all-male boards has fallen by seven percentage points⁵, though of the current AIM UK 50 Index constituents, one sixth (16%) still have no women among their number.

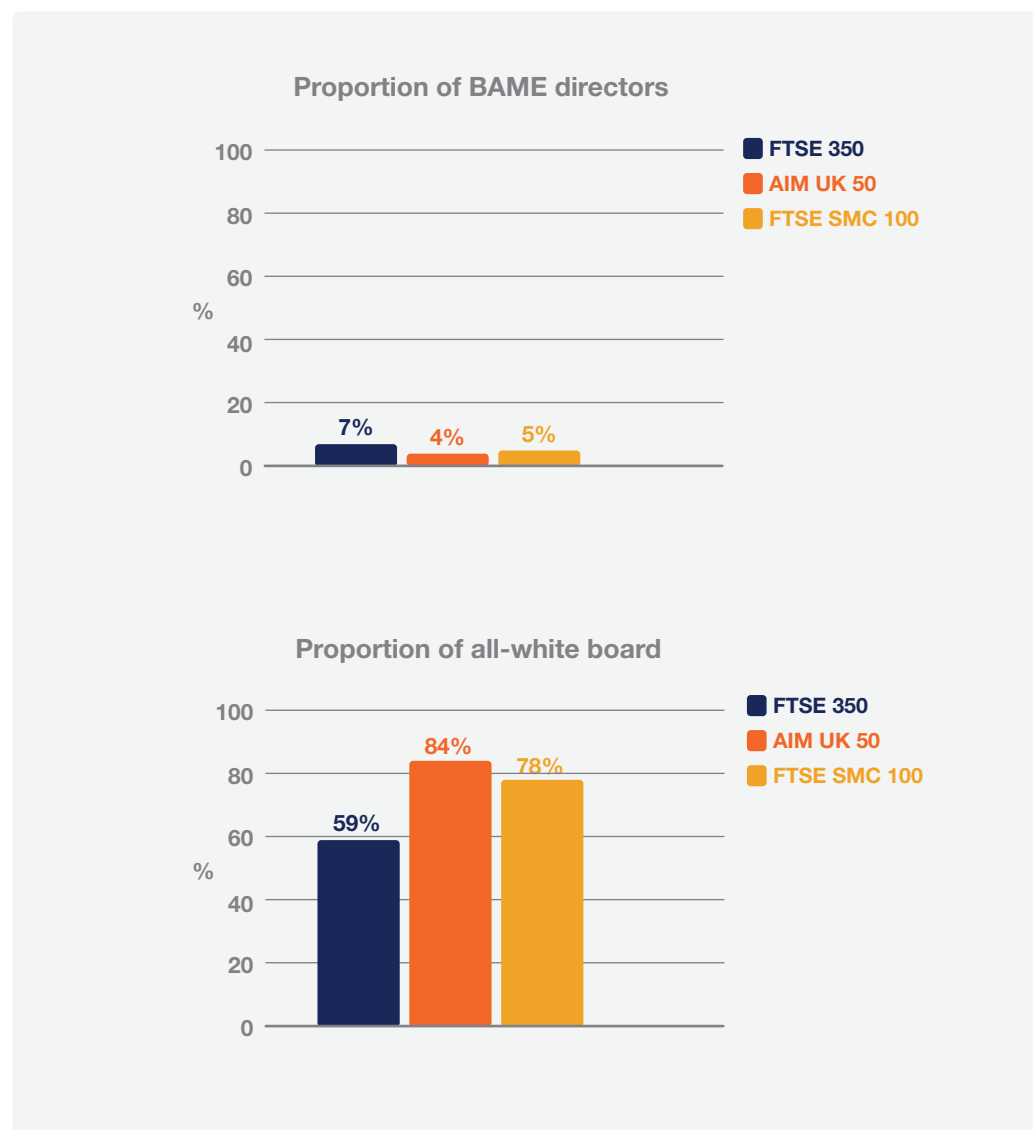
FTSE Small Cap 100

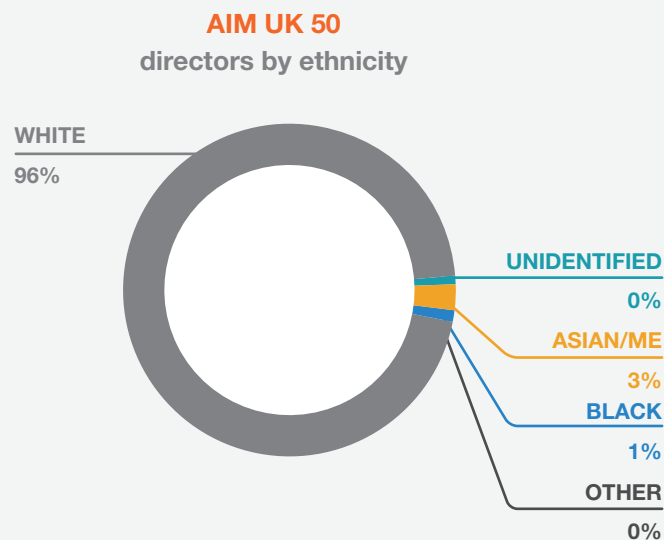
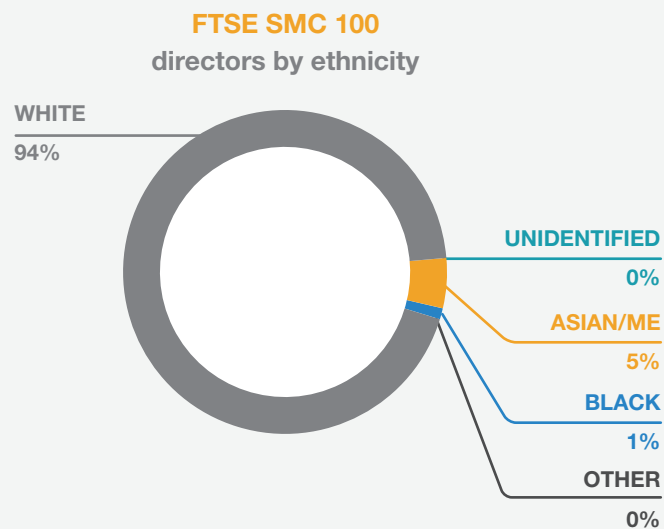
Both the current picture and the rate of improvement are better in the FTSE Small Cap 100 constituency. Female representation has increased by five percentage points year-on-year⁶ and, as at 5 November 2020, it stood at 33%, in line with the FTSE 350 (though more boards had under 25% female representation). Moreover, just over two fifths of all appointments in the last year have been women. If this continues the proportion will naturally increase further in the years ahead. One in 25 (4%) FTSE Small Cap boards were all-male in 2020, significantly better than the AIM UK 50, but this has not improved year-on-year on a like-for-like basis.

Non-executives

The increase in female representation is largely being driven by non-executive directorships (NEDs). Nine in ten women directors across the AIM UK 50 sample have a supervisory rather than an executive role. Male NEDs still outnumber women by almost 3:1 (74% vs 26%), though the female proportion has increased by four percentage points since 2019⁷. Among senior independent directors (SIDs) which is often considered a route to becoming Chair,

4 See methodology for notes on like-for-like calculations which adjust for the changing mix of companies in the sample
 5 Based on like-for-like sample – 21% to 14%, a seven percentage point decline, but current AIM UK 50 has 16% all-male boards
 6 On a like-for-like basis, the proportion of female directors rose from 26% of companies last year to 31% this year. AIM UK 50 like-for-like 22.9% to 27.1% - after adjusting for the changing mix of companies





the progress is even faster. Indeed, at the most senior level, one company, software specialist First Derivatives, switched its Chair from male to female in 2020 taking the total to three. For the FTSE Small Cap 100, an even greater proportion of women directors are NEDs (96% of all female posts) but men outnumber women by less than 2:1 (65% v 35%). The proportion of female NEDs has also risen more quickly than the AIM UK 50⁸, with SIDs up sharply and one chair also switched from male to female.

Executives

There was, disappointingly, no increase in female executive roles in either the AIM or FTSE Small Cap constituencies on a like-for-like basis. The absolute number also remains very low. In the AIM UK 50, women still are outnumbered by almost 16:1 (94% v 6%). While there was no change in the number of women CEOs, Knights Group Holdings' new CFO is female, taking the total number of female executives to three. Among the Small Caps, more than nine-tenths of execs are men, and although door and window specialists Tyman appointed a female CEO, the number of female CFOs halved if we compare the same companies' year-on-year.

Ethnicity

Sadly, there has been no material progress at all on ethnic diversity. Ethnic minorities are almost entirely absent. For example, out of 324 positions on AIM UK 50 boards whose ethnicity could be determined, there were only three black directors, two of these were members of Pan African Resources, and none an executive. 95% of the AIM UK 50 men and 98% of the women directors were white (making 96% in total, compared to 89% of the FTSE 100 and 95% of the 250), and the proportion of all-white boards is high – five in six.

New appointments look a little better until you realise they are barely keeping pace with departures. A tenth of new appointments last year were people of colour, but that led to the net addition of just one such director to AIM UK 50 boards last year. Two all-white boards were eliminated in 2020, but at this slow pace of appointments, it would take a decade to eradicate them completely.

Five of the AIM UK 50 twelve directors of colour were either CEOs or CFOs.

Among the FTSE Small Cap 100, there was no progress at all. Almost four fifths of boards are all white (only a little better than the AIM UK 50), and though two companies appointed people of colour for the first time in 2020, there was no net increase in the population of non-white directors on a like-for-like basis⁹. In total 95% were white.

Age

The average age of FTSE 100 directors is 58.2¹⁰. They are just over a year older than the AIM UK 50 cohort, but they have three and a half years on the FTSE Small Cap 100. We have seen no significant changes in the age make-up of AIM UK 50 boards in the last year. At present, women are a touch younger than men and they are all between 40 and 70, whereas one in nine men is either under 40 or over 70. The increase in septuagenarians in FTSE Small Cap 100 companies has pulled up the average age of the men slightly, while the increasing share of women on boards has slightly reduced their average age. There is a wider range of ages among women at these larger companies than among the AIM constituency. As we pointed out last year, younger women are under-

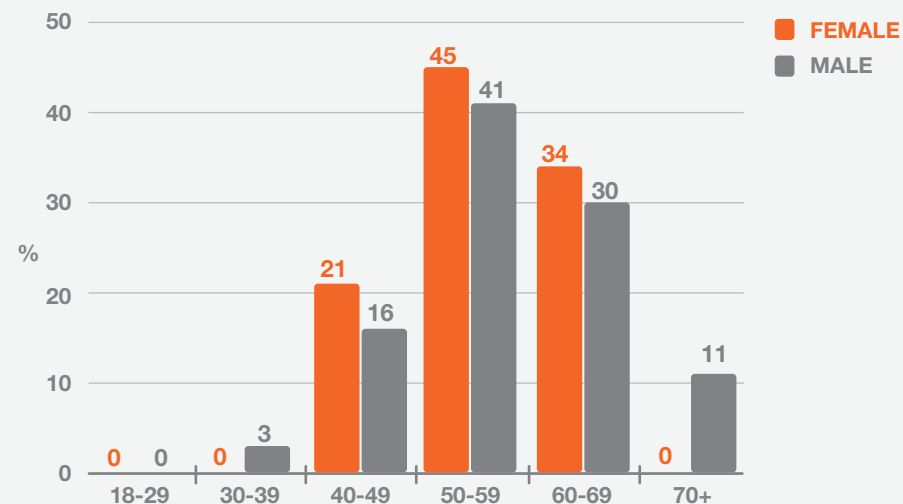
represented because women are less likely to be executives and older women because there are lots of long-tenured older men among the NEDs.

Tenure

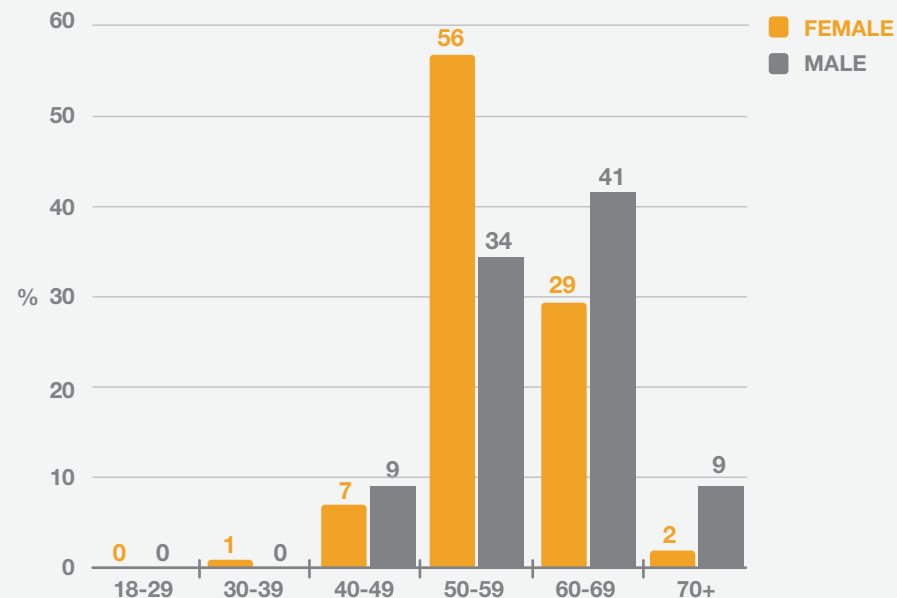
20% of AIM UK 50 directors have been in post for ten years or more compared to just one in eleven (9%) of those in the FTSE Small Cap 100. As we explained last year, founders are more likely to remain involved with AIM companies than their larger counterparts – John Nichols, the non-exec Chair of Nichols Plc drinks company has served on the board for 45 years. One director in every 18 in our AIM sample has served for 20 years or longer. The record in our sample is held by William Barr, a non-exec for FTSE Small Cap beverages group AG Barr. He has clocked up 56 years of board service, but this is very unusual. Just one in 55 in the FTSE Small Cap group has served 20 years or more.

On average, AIM UK 50 directors have served for just under six years, increasing slightly on a like-for-like basis. Among the Small Cap 100, the average tenure fell by almost a year, as several retiring long-tenured directors were replaced with new, mainly female directors. Almost two thirds of women on AIM UK 50 and FTSE Small Cap 100 boards (63% and 65%

Age and gender of directors: AIM UK 50



Age and gender of directors: FTSE SMC 100



⁹ One a like-for-like basis comparing the same companies, there were only 10 BAME directors in 2019 and 2020, 3% of the total.
¹⁰ 2019, published Sep 2020: www.statista.com/statistics/684816/ftse-100-directors-age-by-gender-uk



respectively) have been in post for three years or less compared to just over two fifths of men. This shows how the diversity agenda is really working to drive more women on to boards. Ethnic minorities also tend to be more recent appointments but the picture is less clear cut, reflecting the slower progress on racial diversity.

Reporting on Diversity

Disclosure on diversity is certainly improving, though too often it is in simple, boiler plate terms. This matters. Disclosure does not offer a perfect insight into a company’s talent management and succession planning or into the company’s culture in fostering all forms of diversity. Nonetheless, the quality and transparency of such disclosures can give us valuable insight into the extent diversity considerations are on the board’s or management’s agenda.

There are various diversity reporting obligations, including the gender pay gap (all companies with more than 250 employees) and mandatory statutory reporting across all officers and employees for quoted companies (but not AIM). Those following the UK Corporate Governance Code (or AIC Code for investment companies) are also expected to publish detail on board diversity policies as well as the weight these have in making

appointments and planning succession. Provisions in the QCA Corporate Governance Code – which many AIM companies choose to adopt – are less prescriptive. This may demonstrate the influence that regulatory codes have on company reporting.

Beyond this, the government has recently suggested it may create new obligations on social diversity to favour those with less advantaged backgrounds, and there is also now talk of mandatory ethnicity pay gap reporting.

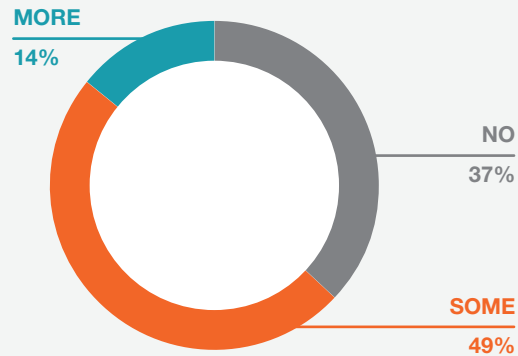
AIM UK 50

Among AIM UK 50 companies, 63% have some form of policy on boardroom diversity, a five percentage point improvement on a like-for-like basis compared to 2019¹¹. While this is progress, the number we would describe as high-quality disclosures – covering, among other factors, the company’s reasons for promoting diversity and what it has done to implement its policy on diversity – has remained almost static year-on-year. This suggests that those companies that are now choosing to disclose their approach to fostering boardroom diversity are only doing so in relatively ‘boilerplate’ terms.

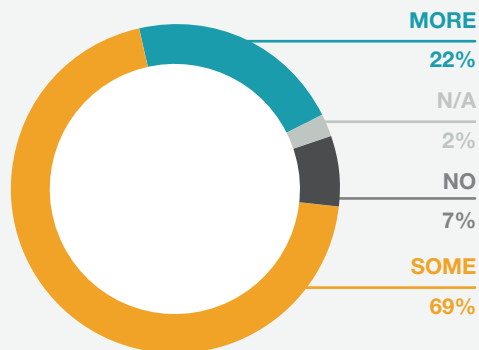
But more attention to diversity is progress nonetheless, and some companies have made meaningful improvements in their

11 AIM UK 50 – taking the like-for-like sample of 42 companies – 69% of these had a diversity policy in 2020 compared to 64% in 2019

Is there a clear boardroom diversity policy for the AIM UK 50?



Is there a clear boardroom diversity policy for the FTSE SMC 100?



disclosures from the previous reporting year, which we will discuss later in this report. Beyond disclosure, we would like to see companies commit more firmly to improving diversity at both board and senior management level. Only two companies set any measurable objectives for gender diversity at board level, one of which also did so for ethnic diversity (though this is mainly due to South African black empowerment legislation governing Pan-African Resources). There has been no movement in this respect since 2019. Concern about ethnic diversity clearly trails gender – there are no instances of ethnic diversity policies unless gender is specifically mentioned too. Succession planning often does not explicitly consider diversity either. Three fifths of companies make no provision for gender and seven eighths none for ethnicity. This is more than last year, but the bar is low as boards must simply ‘have regard’ to diversity in succession planning.

Equally, at senior-management level, we would like to see further disclosure on how boards and management are seeking to foster further diversity. Disclosure on initiatives are few and far between, even if diversity is a stated factor in talent

management and succession. Almost three quarters of companies (71%) are not actively fostering gender diversity and likewise nine tenths for ethnic diversity. Initiatives are even less likely to mention other minorities such as the disabled or LGBT.

FTSE Small Cap 100

As ever, reporting among these larger companies is superior to that among their smaller counterparts. 91% have a clear policy on boardroom diversity, up three percentage points on 2019. In three fifths of cases, it specifically mentions both gender and ethnicity, though as with the AIM UK 50, the latter is only mentioned if the former is. The proportion of companies not having a clear policy on boardroom diversity has dwindled to 7%.

Unfortunately, 20% have no initiatives on gender and the 37% none on ethnicity, though this is far better than the AIM UK 50. What’s more, only 8% of companies have an individual or group of individuals clearly accountable for improving the situation, though this is an increase of three percentage points on last year. The low numbers here reflect a general opacity around disclosing diversity initiatives.

What does good practice look like?

ASOS plc (AIM 50)

Clarity on the strategic importance of diversity.

Diversity is regarded as a “key driver of business success” and fundamental to the corporate culture. A diverse board is “an essential element to maintain board effectiveness and competitive advantage.”

Throughout the report a number of positive and, in some cases, innovative initiatives are set out.

The Group will only engage with executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice to ensure that the pool of candidates is as wide and diverse as possible. On ethnic diversity, the Company is also a signatory to the BITC Race at Work Charter and has appointed an Executive Sponsor for Race, who will chair the ‘Race at Work’ Committee. They have also introduced a BAME Reverse Mentor programme for the Executive team, amongst other initiatives.

The board sets out a **target of at least 30% female Directors** on the ASOS Plc Board over the short to medium term.

The report clearly **identifies the provisions of the board diversity**

policy, and sets out board ownership

of the policy, noting that the “Board ensures that procedures are in place to underpin this policy on diversity, including in its succession planning for senior management.”

Diversity is built into the CEO objectives for 2021.

The Remuneration Committee report discloses that one of the criteria CEO annual bonus decision will be based in part on the CEO continuing “to lead and build effective senior leadership team, develop leadership capability and diversity at the Leader level.”

View the full report [HERE](#)

Fevertree Drinks plc (AIM 50)

We note that the disclosure for Fevertree Drinks plc on diversity has materially improved year-on-year.

Since 2018, the board has now agreed a board diversity policy, with one key action for the board in 2020 being to monitor implementation of the policy.

We also welcome the transparent nature of the diversity disclosures. While the board does not currently set board diversity targets, there is acknowledgement within the report that 12.5% female representation at board level is below

where the board wants to be. Furthermore, the report includes disclosure on female representation at senior management level, which represents an improvement from the previous annual report.

View the full report [HERE](#)

Hammerson plc (FTSE SMC 100)

We acknowledge that Hammerson plc was a former FTSE 250 constituent and that we should reasonably expect a number of FTSE 250 companies to have higher than median quality disclosures on diversity.

Nonetheless, Hammerson plc has adopted a board diversity policy that includes disclosure on the provisions of the policy, the rationale behind the policy and the desired policy outcomes. The policy aims to:

- improve gender diversity at board and senior management level by working to achieve at least one third women on the board, the Group Executive Committee and direct reports to the Group Executive Committee by 2020.
- improve ethnic diversity at board and senior management level with a target of having at least one person of colour on the board by December 2024.

The report also sets out a balanced assessment of progress against each of these outcomes. The disclosure brings the policy to life.

View the full report [HERE](#)

NCC plc (FTSE SMC 100)

NCC plc sets out a wide range of diversity factors that it takes into account, including LGBTQ+ considerations and neurodiversity.

We like this disclosure because there is a recognition that the board composition does not currently reflect the long-term ambition of the Group to improve diversity. The report notes that, given “that this is a fairly young board in terms of tenure, this improvement in diversity will not happen overnight but we are extremely cognisant of the need to make significant strides in this area to improve this and it is fully on our board agenda.” Transparent and balanced reporting serves to demonstrate board commitment to the agenda.

This commitment is reinforced in the Remuneration Committee report, with the CFO’s remuneration package weighted in part on improving senior management gender representation.

View the full report [HERE](#)

What is good disclosure?



If you have a board diversity policy, say so explicitly

We note that a number of companies set out their approach and intent on diversity at board and (where appropriate) senior management level, yet do not disclose that they have a formal policy. We strongly encourage boards that have not yet done so to consider adopting a formal board diversity policy, which is often a critical first step in setting aims and targets.



Relate strategy to diversity

This is particularly pressing for operational companies. High-quality disclosures highlight how diversity at all levels, including the board and (where applicable) senior management, serves to reinforce the company's values and culture and is an important driver for long-term strategic growth. Diversity disclosures should not be limited to one small section of the annual report as a compliance exercise, but should be reinforced throughout the strategic and corporate governance sections. We particularly welcome those disclosures where executive remuneration is linked in part to diversity considerations.

In a number of companies, there is an apparent disconnect between the

importance given to diversity considerations in external investment decisions against the apparent importance of promoting a diverse organisation internally. Diversity should be considered holistically and read consistently across the annual report.



Be clear

Many companies set out their approach as taking diversity considerations “in all its forms” into account. A small number of companies recognise that diversity is wider than gender, but do not go on to state the full range of diversity factors that are considered.

We would like to see companies setting out explicitly which diversity factors they consider particularly important, and why.



Disclose objectives, initiatives and outcomes

We would like to see, generally speaking, further disclosures from companies on the initiatives that they employ to support diversity objectives within their policies, and the outcomes of those initiatives. This is in line with Companies Act provisions on other non-financial reporting areas. We note that companies often acknowledge external review targets (most frequently,

the Hampton-Alexander Review) but many companies who have under 33% female representation on the board do not reflect on their own achievements against the review, or set any ambition for achieving the Review targets. We think there is scope for further transparency here.

A number of companies set out a number of initiatives to promote diversity at particular levels of the workforce but do not reflect on diversity initiatives at senior management or board level.

Further, we would encourage companies to think carefully about the language used. Semantics matter. For example, companies will often discuss what they consider to be ‘appropriate’ or ‘proportionate’, without including further disclosure on what factors are taken into account to inform this judgement.



Balanced reporting

Reporting on initiatives should be balanced. For example, we welcome the fact that a number of companies disclose the fact that they will only engage executive search agencies that are signatories to voluntary codes of conduct on promoting diversity. This is a welcome first step.

However, companies are also encouraged to reflect periodically on the effectiveness of such actions. We note that a small number of companies have reflected critically on progress in achieving greater diversity on the board or in the senior management teams; such critical reflection is to be welcomed as a further sign of intent and commitment to this agenda.



Authenticity and ownership

Very few companies identify the group or individual(s) responsible for the implementation of the board diversity policy or underlying diversity initiatives. We would encourage companies to consider further disclosure on responsibilities or accountabilities, as this serves to demonstrate commitment.

Further, a number of diversity statements are in the Nominations Committee report. While we appreciate that a Nominations Committee will often have an important role in driving diversity, we would like to see further disclosures on the ways in which the board oversees the implementation of the diversity policy.

Methodology

This review covers the companies in the AIM UK 50 Index and the 100 largest companies in the FTSE Small Cap Index as at 30th September 2020. The data was collected from the companies' latest annual reports, published between 1 November 2019 and 5 November 2020. Amongst the AIM UK 50 index constituents, one company did not publish an annual report during that time period; similarly, four companies within the FTSE Small Cap sample did not publish an annual report. Those companies have therefore been excluded from this review.

Some of the annual reports had been published up to 11 months previously (and they can be out of date by the time they are published). So we also reviewed appointments made and resignations between the date of publication of the annual report and 5 November 2020, using Companies House data and companies' regulatory announcements and websites, to get an up-to-date picture of the board. All companies in our sample are listed in the United Kingdom to ensure a certain level of non-financial information in their annual reports.

Given that the list of companies changed between our last report and this one (inevitable since we are measuring the largest at a point in time) where we talk about change from one year to another we are using a smaller "like-for-like" sample, using only those companies that were represented in both years in our target range. This means we are capturing real change rather than simply a changing mix effect.

Data on gender and ethnicity of directors was gained from companies' reporting. Ethnicity, where not reported, was assessed using the same methodology as the 2017 Parker Review, which is an exemplar in this area. As they also acknowledge, assessment of people's ethnicity and race is not always clear cut, and the language used to describe directors' ethnicity is imperfect. Nationality and country of residence was obtained from Companies' House data and companies' annual reports. We are also aligned with the Parker review in our use of the term 'directors of colour', namely that there is no noun/group of nouns that would be perfectly suitable to capture this, and we use the broad term "people of colour" to capture individuals with evident heritage from African, Asian, Middle Eastern and South American regions. We also use the term "non-white" directors in this report, but acknowledge the imperfections inherent in defining any group of people by their relationship to whiteness.

We also reviewed the quality of diversity reporting of these companies. This analysis followed a similar approach to the review by the FRC and the University of Exeter into board diversity in the FTSE 350, which looked at how companies discuss diversity in their annual reports. We looked for references to diversity throughout the front end of the report, looking for references to diversity policies or initiatives. The quality of reporting in these areas was addressed using the same categories and description. Our data was cross checked to ensure consistency in the judgment of reporting quality.



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